UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
Washington, D. C.

February 4, 1936.

Honorable Ellison D. Smith,
Chairman, Senate Committee on Agriculture,
United States Senate.

Dear Senator Smith:

As requested by you I have read the Bill introduced by you on February 3, 1936, which seeks to make provision for the disposition on certain cotton in which the Federal Government is interested, and submit below my criticisms:

(1) Cotton embraced in the 1933 Cotton Producers' Pool should be marketed in accordance with the terms and provisions of the contract agreements between the Secretary of Agriculture, the Manager, Cotton Pool, and some 450,000 producers who, in good faith, entered into these contracts, and whose rights should not be extinguished as they manifestly will be under the provisions of the Bill.

(2) The Bill makes no provision for funds with which the proposed Agency may compensate the Commodity Credit Corporation for the manifest loss which will be sustained if the provisions of the Bill are enacted. No provision is made for funds with which to enable the Agency to compensate the Manager, Cotton Pool, and through him the producers holding Certificates of interest in the Pool for the loss which will be sustained by them if the provisions of the Bill are enacted.

(3) The Commodity Credit Corporation has made advances aggregating more than $250,000,000 to sundry producers. To secure these advances, the Commodity Credit Corporation has taken the non-liability notes from these producers, secured by the pledge of cotton. In turn, the Commodity Credit Corporation has borrowed more than $250,000,000 from the Reconstruction Finance Corporation. Commodity Credit Corporation has given its notes to the Reconstruction Finance Corporation for the aggregate ammount borrowed, securing payment of its notes by pledging R.F.C. the entire capital and surplus of the Commodity Credit Corporation, slightly more than $3,000,000 and by the pledge of borrowers' notes and the cotton securing them. The Bill makes no reference to the interests of the R.F.C. but stipulates that "The CCC or any other governmental agency or instrumentality" shall transfer all cotton held as collateral to the proposed Agency. No provision is made for reimbursement to the R.F.C. for the loss which such a course will entail.

(4) The Agency, in this case the CCC, supervised and controlled by the R.F.C. should be left in possession of the collateral taken to secure the advances made and should have a voice in the marketing or merchandising of that collateral, or, if to be stripped of the collateral, should be compensated.

(5) The Secretary of Agriculture and the Manager, Cotton Pool, who represent more than 400,000 producer members of the Cotton Pool, should be allowed a voice in the marketing of the cotton held by the Pool for the benefit of the beneficiaries of the trust which was created pursuant to the establishment of the Pool, or, they should be sufficiently compensated for the cotton taken from the Pool to enable them to make proper adjustment and settlement with those agencies or departments of the government which have advanced money against this cotton and to enable them to protect the contractual rights and interests of the Pool members.

(6) The Administration is primarily interested in restoring the normal buying power of the producer and believes that this can best be accomplished by reducing the existing abnormal surplus of American cotton to a normal level. It is believed that this can best be accomplished by getting cotton into consumption and that for this reason cotton should be made available to the mills of the world in such quantities as are necessary to care for mill requirements. Likewise, it is important that world markets be maintained for American cotton and that American cotton be made available to the mills at world prices even though in doing this it may be necessary to make adjustment payments to producers to preserve their buying power.

(7) The bill under consideration proposes the arbitrary withdrawal of approximately 5,000,000 bales of cotton and the subsequent marketing of that cotton at a uniform rate without regard to demand. This is unsound. Markets cannot be arbitrarily created. Cotton must be sold when and if there is a market or demand. It would be unsound to force upon the market any specific quantity of cotton however small.

(8) It is sometimes possible to sell into consumption, very large quantities of cotton without depressing the market. At other times, demand slackens and it is not possible to sell even small quantities without adverse market wide effect.

(9) A schedule of uniform sales through a long period of time ignores the factor of foreign seasonal competition. For example, from February to May the American crop doesn't have to compete with the crop from Sao Paulo, South Brazil.

(10) Cotton can be moved in considerable quantities when sold by individual producers scattered through the 16 producing States without depressing the market. Cotton cannot be sold by a single agency in any such quantities without exercising a depressing influence.

(11) The plan proposed by the bill would eliminate a very great majority of the smaller cotton merchants and the country buyers.

These merchants and buyers, buy as a rule, in small quantities against mill orders for specified grades and staples. They are unable, because of financial limitations, to accumulate large stocks of cotton. These merchants and buyers buy throughout the entire cotton belt during harvest season and accumulate small stocks of designated grades and staples for delivery to their mill customers through the year. The three or four large cotton merchants with markets distributed throughout the world have ample financial resources and are in a position to accumulate large stocks embracing every type of cotton. These buyers do not require that the cotton they purchase be of any particular or specified type. They are accordingly in a position to offer from week to week to purchase the maximum amount permitted under the program. For example, four such firms could each week each submit a flat bid for 5,000 bales, stipulating the basis or premium offered for middlings 7/8 (the standard cotton), and agree to take cotton of any type above or below the standard at designated differences (premiums or discounts). Such bids would unquestionably be the best bids offered and would preclude small buyers acquiring cotton at such sales.

(12) The 4,500,000 bales of cotton held under the 12-cent loan represents percentum of the 1934 crop. At present, title to this cotton is held by those farmers who produced it. Some 700,000 bales of this cotton were produced by members of the various cooperative marketing associations in the sixteen cotton-producing States. This cotton would normally be marketed through these associations and the revenues derived from handling the cotton, contribute to the maintenance of these organizations. Any profit derived from the handling of the cotton would enure to the benefit of the association members. The production of hundreds of thousands of bales of this cotton has been financed by cotton factors who are accustomed to marketing the cotton produced by their customers. To withdraw this vast amount of cotton from the cooperatives and factors throughout the South would be to work a serious hardship upon these individuals, firms and associations.

(13) When properly classed, the cotton which, under the terms of the bill will be turned over to the Agency, will fall into more than 600 types. To carry out the provisions of the bill it would be necessary that this cotton be classed, entailing an expense of not less than two and one half million dollars. It would be necessary to set up individual accounting records with each person whose cotton is so taken over. There would be more than 750,000 such persons; it would be necessary to determine and maintain a record of the specific type or types of cotton taken over from each individual; it would be essential for this Agency to acquire tabulating machines, sample rooms, storage facilities for storing the samples; an enormous staff of experts, cotton classers, insurance experts, traffic experts, etc. would have to be employed. The normal and ordinary carrying charge, interest, insurance and storage, amounts to approximately forty-five cents per bale per month or more than $20,000,000 annually. To this will have to be added, administrative expenses of several hundred thousand dollars annually. If sold at the maximum rate permitted under the bill, only 1,200,000 bales could be sold annually. It would thus require approximately 4 1/2 years to market this volume of cotton. The accrual of carrying

charges will prevent any hope that the cotton may ultimately be marketed at a figure which would leave a residue to be distributed among producers.

(14) This cotton could be marketed more economically and without the accrual of an enormous expense incident to handling and classing it through an Agency, by allowing it to be handled through the normal trade channels under the direction and supervision of those who produced it. There is manifestly a loss to the Commodity Credit Corporation and Reconstruction Finance Corporation at the present price levels. If this loss is recognized, an arrangement could be made which would permit producers to severally market their own cotton, permitting them to withdraw cotton from the loan by the payment of the stipulated sum per pound, fixing that sum at a figure which will allow a small margin of profit to the producer. Such an arrangement would not necessitate the establishment of a huge and expensive marketing Agency as well as the expense of classing the cotton and setting up those records which would be required under the provisions of the Bill. Such a plan would not disturb economic conditions. Factors, cooperative associations, local marketing agencies and local cotton buyers would be permitted to perform their normal functions and would be permitted to receive their usual compensation, which compensation would be less than the cost of marketing in accordance with the program provided for in the Bill.

(15) If the markets of the world will not absorb this cotton in the course of the next year and a half or two years, and if marketing conditions preclude higher price levels than the present, the loss arising will increase but will not be so great as would be the case if the cotton is taken over in the manner provided in the Bill.

(16) The Bill as drawn provides that the proceeds derived from the sale of the cotton shall be paid into the Treasury. If this is done, the funds are not thereafter available for any purpose unless withdrawal is authorized by specific appropriation.

(17) The Bill as drawn makes no provision for funds to enable the Agency to pay carrying charges, costs and administrative expenses. Not less than a million and a half dollars a month will be required for these purposes.

(18) The Agency established would be a new governmental agency; the members of the Board comprising this Agency being appointed by the President with the approval of the Senate, can only be removed by impeachment. A more flexible Agency should be used, one subject to direct control. Under present conditions, the Manager, Cotton Pool, is directly controlled and supervised and may be removed at will by the Secretary of Agriculture. Commodity Credit Corporation is operated by a Board of Directors consisting of two directors from Reconstruction Finance Corporation, the Solicitor General of the United States, the Governor of Farm Credit Administration, J. E. Wells, Deputy Cooperative Bank Commissioner, the Secretary of Agriculture, the Administrator, A.A.A., the Director of Finance of the A.A.A., and the Manager, Cotton Pool.

It would appear that it is not necessary to establish a new Board or Agency but that the handling of this volume of cotton should be left to the discretion of the Board.

Yours truly,

Oscar Johnston,
Manager, 1933 Cotton Producers' Pool.
First Vice President, Commodity Credit Corp.